



*The Federal Tax Deposit Alert Program Helps
Taxpayers Comply With Paying Taxes, but
Alerts Can Be Worked More Effectively*

September 17, 2007

Reference Number: 2007-30-180

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 17, 2007

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: *Margaret E. Bays*
(for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Federal Tax Deposit Alert Program Helps
Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked
More Effectively (Audit # 200630038)

This report presents the results of our review of the Internal Revenue Service (IRS) Federal Tax Deposit (FTD) Alert program (the Alert program). The overall objective of this review was to determine the effectiveness of the Alert program criteria and case actions to bring taxpayers into compliance with paying taxes. This audit was conducted as part of the annual audit plan.

Impact on the Taxpayer

The Alert program provides for early intervention by the IRS when employers do not deposit and pay taxes withheld from employees. It identifies taxpayers that appear to be behind in making deposits of withholding taxes before their quarterly employment tax returns are due to be filed so the IRS can contact the identified taxpayers to resolve the underpayments. The new Alert program criteria appear to be working to reduce the overall number of FTD Alerts issued and to identify more productive cases. However, employees need to better follow procedures to work these cases more effectively and help ensure taxpayers make the proper amounts of deposits. FTD Alerts serve the taxpayer's interest by involving the IRS before enforced collection action¹ or bankruptcy becomes the sole remaining alternative for collecting the taxes owed.

¹ Enforced collection actions include levies of taxpayer assets, such as bank accounts, and the filing of a Federal Tax Lien.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Synopsis

An IRS Research Function Report² in November 2005 and our current review of taxpayer compliance trends subsequent to the issuance of Alerts generally showed positive results, such as increased deposits and a higher percentage of fully paid/satisfied subsequent tax liabilities. Once an Alert was issued, only a small percentage of taxpayers were issued subsequent Alerts, meaning the taxpayers continued to make deposits.

Although some management information, such as inventory received and disposed, hours charged, and productivity rates, is regularly captured for the Alert program, an analysis of whether taxpayers are more compliant subsequent to issuance of an Alert is not regularly performed. This type of analysis should be performed more frequently (the last research study was done in November 2005 based on data from the last quarter of Calendar Year 2003 and the first quarter of Calendar Year 2004), so the effect of working Alerts is known.

Also, our research of IRS guidelines showed those that reflect Alert program criteria need to be updated. Several reference document sources contain obsolete information and data based on the old Alert selection criteria. In addition, information displayed on the IRS computer system that employees use for research does not contain the new Alert priority codes. Inaccurate information is being displayed, and employees could make incorrect assumptions about a taxpayer's account, such as thinking the taxpayer is accruing additional liabilities.

Lastly, our review of a judgmental sample of 50 FTD Alert cases showed revenue officers can improve their actions on cases by following the required procedures. Documentation in the case files showed that, in 25 of the 50 cases, revenue officers did not always contact the taxpayers within the required 15 calendar days, monitor current FTDs, inform taxpayers about potential penalties related to not depositing taxes on time, and/or inform taxpayers about potential enforcement action consequences.

The purpose of the required procedures is to allow revenue officers to educate taxpayers at the earliest possible time after they start falling behind in making their FTDs. These procedures are meant to educate taxpayers about their responsibilities and what could happen if they do not make the FTDs and file tax returns. By not following the procedures, the IRS loses an opportunity to explain the importance of FTDs and the taxpayers' responsibilities.

² *Federal Tax Deposit Alert Measures Final Report*, Small Business/Self-Employed Division Research function, Project Number 06.08.001.04, dated November 2005.



The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked More Effectively

Recommendations

We recommended the Director, Collection, periodically measure taxpayer compliance after contact on an FTD Alert, update IRS guidelines with the current Alert priority codes, and emphasize procedures and documentation requirements for working Alerts.

Response

The Commissioner, Small Business/Self-Employed Division, agreed with the recommendations and is taking corrective actions. Small Business/Self-Employed Division management will sample a group of taxpayers who have had FTD Alerts issued on their accounts and follow their compliance for the two subsequent tax periods, revise IRS Processing Codes and Information (Document 6209) to reflect current Alert priority codes (the Internal Revenue Manual displays the current Alert priority codes), submit a request to the Modernization and Information Technology Services organization for a programming change that will reflect the current priority codes on the Master File,³ and develop training specific to Alerts for revenue officers. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-5894.

³ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Table of Contents

Background	Page 1
Results of Review	Page 3
The Federal Tax Deposit Alert Program Criteria Are Working As Intended, but Management Information Does Not Include a Measure of Taxpayer Compliance	Page 3
<u>Recommendation 1:</u>	Page 5
The Internal Revenue Service Needs to Update Its Guidelines and Research Screens to Reflect the Current Criteria	Page 5
<u>Recommendation 2:</u>	Page 6
Revenue Officers Were Not Always Following or Documenting Proper Procedures on Federal Tax Deposit Alert Cases.....	Page 6
<u>Recommendation 3:</u>	Page 7
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 8
Appendix II – Major Contributors to This Report	Page 10
Appendix III – Report Distribution List	Page 11
Appendix IV – Taxpayer Compliance Subsequent to Issuance of a Federal Tax Deposit Alert.....	Page 12
Appendix V – Management’s Response to the Draft Report	Page 13



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Abbreviations

FTD	Federal Tax Deposit
ICS	Integrated Collection System
IRS	Internal Revenue Service



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Background

One of the six Small Business/Self-Employed Division collection strategies for Fiscal Year 2007 is to positively affect the potentially collectible inventory of delinquent accounts owed by taxpayers by increasing the Collection function's commitment and efforts in reducing the underpayment portion of the tax gap.¹ The daily focus of this strategy is to improve the quality and quantity of work, which will result in the greatest impact on the tax gap. The Small Business/Self-Employed Division Collection Program Letter for Fiscal Year 2007 includes five priorities to address this strategy. One of them is to improve compliance of in-business taxpayers by taking steps to minimize the pyramiding² of taxpayer accounts and improve the monitoring of taxpayer compliance.

Employers are required to withhold amounts from their employees' salaries to cover individual Federal income, Social Security, and Medicare taxes; make matching contributions for the amounts for Social Security and Medicare taxes; deposit these amounts with the Internal Revenue Service (IRS); and file employment tax returns. Federal Tax Deposits (FTD) are deposits by an employer of taxes withheld from their employees. As of June 2007, based on IRS case inventory, employers owed the IRS approximately \$12 billion in employment taxes.

The IRS has implemented various intervention programs, including those addressing FTDs for employment tax filers. The FTD Alert program (the Alert program) is a proactive process allowing early intervention by the IRS when employers do not deposit and pay taxes withheld from employees.

The FTD Alert program allows the IRS to intervene early when taxes withheld from employees are not paid to the IRS.

The Alert program identifies taxpayers that appear to be behind in making deposits of withholding taxes before their quarterly employment tax returns are due to be filed. FTD Alerts are computer generated, and taxpayers' accounts will have a specific code indicating there is an Alert. If the Alert meets a certain probability level that there is an underpayment of FTDs, the Alert is assigned (issued) to the Collection Field function³ inventory. Revenue officers in the

¹ The tax gap is the difference between the amount of tax that taxpayers should pay under the tax law and the amount they actually pay on time.

² Pyramiding refers to when in-business taxpayers continue to accrue employment tax liabilities quarter after quarter.

³ This is the unit in the field offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled tax returns.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Collection Field function work Alert cases and contact the identified taxpayers in person, to discuss the deposit requirements and obtain payments.

An FTD Alert can protect the Federal Government's interest by its early identification of a potential delinquent tax payment. It also serves the taxpayer's interest by allowing IRS involvement before enforced collection action, such as a levy⁴ of a bank account or seizure of assets, or bankruptcy becomes the sole remaining alternative for collecting the taxes owed.

This review was performed at the Small Business/Self-Employed Division Collection function Headquarters in New Carrollton, Maryland, during the period September 2006 through June 2007. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.



The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked More Effectively

Results of Review

The Federal Tax Deposit Alert Program Criteria Are Working As Intended, but Management Information Does Not Include a Measure of Taxpayer Compliance

The basis for the current FTD Alert criteria is logical when considering whether to intervene if a taxpayer does not appear to be making timely tax deposits. The IRS updated the criteria in 2004 to send to the Collection Field function more productive cases than were previously being sent. The prior selection criteria, which had been in existence since the Alert program's inception in 1972, were based primarily on a previously specified number of quarters of tax data and penalties assessed. The prior criteria resulted in large numbers of taxpayer accounts being selected for Alert issuance based on a minimal amount of FTD penalties.

Collection function management had received feedback from the employees in the Collection Field function offices that too many unproductive Alert resolutions occurred based on the previous criteria. For example, employees would attempt to contact taxpayers and find they were already out of business. As a result, the IRS added to the previous criteria additional filters that had the effect of decreasing the total number of Alerts issued so the more productive cases would be assigned. The management information reports showed the new criteria helped reduce the overall number of taxpayer accounts selected for Alert issuance and have more potential to select more productive cases for the revenue officers to work.

The current criteria for issuing an FTD Alert have more potential to select productive cases for revenue officers than the previous criteria.

Our analysis of the management information that shows the number of Alerts worked and the time spent on the cases indicated the information is useful and reliable. The IRS uses the Integrated Collection System (ICS)⁵ to capture information related to Alerts and transfers the data to the official IRS Collection Reports. The data captured include opening inventory,

⁵ The ICS is an automated Collection function workload management system designed to automate revenue officer case processing activities such as inputting history items and generating liens and levies.



The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked More Effectively

receipts, disposition, closing inventory, total hours, hours per disposition, productivity rates,⁶ closure type, and deposit amounts.

One measure not captured is whether contacting a taxpayer about an Alert results in improving that taxpayer's subsequent compliance. The Alert program is an early intervention program, and one of its goals is to get taxpayers into compliance as soon as possible. This type of management information would be helpful to determine whether the Alert program actually brings more taxpayers into compliance than making no contact.

Although management information captures useful data related to FTD Alerts, it does not include a measure of whether the Alerts improve subsequent compliance.

According to an IRS Small Business/Self-Employed Division Research Function Report⁷ issued in November 2005, when Alerts were assigned to Collection function employees, taxpayers paid more in additional deposits in the subsequent tax periods than those taxpayers on whose accounts no Alerts had not been issued. This Report compared taxpayers with similar tax liabilities for the last quarter of Calendar Year 2003 and the first quarter of Calendar Year 2004 and stated there were approximately \$6.4 million in additional tax deposits from the taxpayers that were contacted by the IRS regarding an Alert. This type of information has not been captured since issuance of the November 2005 Report.

To determine whether the trends continued and to update the information, we performed an analysis of compliance trends to ascertain the effect of working Alerts. We identified Alerts issued for the first quarter of Calendar Year 2005⁸ and tracked compliance trends through the third quarter of Calendar Year 2006 for these taxpayers.

We analyzed the subsequent tax periods to determine whether the accounts were fully paid/satisfied, had subsequent FTD Alerts issued, or had balances due. Generally, the analysis showed that a large percentage of the taxpayers were brought into compliance. As time went on, fewer Alerts were issued for these taxpayers, and, generally, a higher percentage of accounts were fully paid than were in balance-due status. For further details on these trends, see Appendix IV.

⁶ Productivity rates are calculated as dispositions divided by (the total hours divided by the base salary of a Full-Time Equivalent). A Full-Time Equivalent is a measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2006, 1 Full-Time Equivalent was equal to 2,080 staff hours. For Fiscal Year 2007, 1 Full-Time Equivalent is equal to 2,080 staff hours.

⁷ *Federal Tax Deposit Alert Measures Final Report*, Small Business/Self-Employed Division Research function, Project Number 06.08.001.04, dated November 2005.

⁸ We identified FTD Alerts having the priority codes that indicate they would be worked by revenue officers. However, we did not validate that each case was in fact worked.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

IRS management does not regularly monitor subsequent compliance of taxpayers that were contacted regarding FTD Alerts. Research projects or studies may be conducted to capture the information; however, the last one was based on 2003-2004 data, prior to the change in Alert selection criteria. Without the information on a taxpayer's subsequent compliance, the effect of working Alerts is not known. This type of information would be useful because it could show the Alert program is a good way to intervene early in taxpayers' problems with staying current and work with them to get back on track. While measuring subsequent taxpayer compliance monthly may not be practical, it would be helpful if performed periodically.

Recommendation

Recommendation 1: The Director, Collection, should periodically measure taxpayer compliance subsequent to issuance of an FTD Alert to determine the effectiveness of the Alert program.

Management's Response: IRS management agreed with the recommendation. They will sample a group of taxpayers who have had FTD Alerts issued on their accounts and follow their compliance for the two subsequent tax periods.

The Internal Revenue Service Needs to Update Its Guidelines and Research Screens to Reflect the Current Criteria

The IRS should keep its guidelines and procedures as up to date as possible so employees can follow correct procedures in performing their duties. Data about FTD Alerts are available on the IRS Master File,⁹ which employees use for various forms of research on taxpayer accounts such as to help taxpayers resolve problems or to contact taxpayers to collect delinquent accounts. The Internal Revenue Manual, which contains IRS guidelines, and the IRS Processing Codes and Information (Document 6209) describe Master File codes that can be used by a researcher to identify Alerts and their priorities.¹⁰

In Fiscal Year 2004, the IRS changed the selection criteria for FTD Alerts. Although the IRS updated the Alerts priority codes on the Master File, the new codes do not show on the screens that employees typically use for research. Employees see the codes that were in effect prior to implementation of the new criteria. There are some additional codes on the Master File that reflect the current Alert selection criteria; however, an employee researching the account information using standard IRS procedures for researching a taxpayer's account would not see these additional codes because typical research screens currently display the old codes.

⁹ The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

¹⁰ FTD Alerts have certain priority codes that describe the level of probability that a taxpayer may not have deposited the correct amount of FTDs.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

The Internal Revenue Manual still presents the former way to identify FTD Alerts. It has not been updated with the current information on how to identify a current Alert. In addition, Document 6209 does not contain the priority codes based on the current criteria. Collection function management had not made updates to these documents as of the date of our review. Because the guidelines do not contain information based on the current Alert selection criteria, inaccurate information is being displayed when employees research taxpayer account. The employee sees the Alert code based on the old criteria and may make incorrect assumptions about a taxpayer's account, such as thinking the taxpayer is accruing additional liabilities, and discuss the FTD underpayments with the taxpayer. If the correct coding was displayed based on the current criteria, the employee would know it may not be necessary to address the FTD underpayments.

Recommendation

Recommendation 2: The Director, Collection, should ensure the Internal Revenue Manual and Document 6209 are updated to reflect the current FTD Alert priority codes and request that data displayed about Alerts when researching taxpayer accounts on the Master File show the current criteria and coding.

Management's Response: IRS management agreed with the recommendation. Document 6209 will be revised to reflect current FTD Alert priority codes. The Internal Revenue Manual displays the current Alert priority codes. Small Business/Self-Employed Division management will submit to the Modernization and Information Technology Services organization a request for a programming change that will reflect the current priority codes on the Master File.

Revenue Officers Were Not Always Following or Documenting Proper Procedures on Federal Tax Deposit Alert Cases

FTD Alerts are sent from the Master File to the ICS for direct assignment to revenue officers in the Collection Field function offices. Revenue officers should make initial taxpayer contact within 15 calendar days of receipt of the Alert. They conduct precontact research and analysis to determine if the Alert should be closed prior to taxpayer contact. When the taxpayer is not in compliance, IRS guidelines require the revenue officer assigned to the case follow specific procedures to bring the taxpayer into compliance, such as reviewing FTD requirements, explaining FTD penalties, ensuring the taxpayer understands the consequences of continued noncompliance, monitoring the taxpayer's compliance with deposits, and inputting a record of FTDs made by the taxpayer as a result of Alert contacts.

We reviewed of a judgmental sample of 50 Alert cases that showed revenue officers effectively performed compliance checks, determined whether returns were filed, verified whether taxpayers were liable for deposits, and reviewed FTD requirements with the taxpayers. Revenue officers



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

collected approximately \$525,000 in FTDs while they were in contact with the taxpayers on these cases.

However, in 25 cases, revenue officers did not take all the required actions for Alert cases and need to better follow procedures to work these cases more effectively and help ensure taxpayers make the proper amount of deposits. According to the documentation in the 25 case narratives, revenue officers did not perform 1 or more of the following required actions:

- Contact the taxpayers timely (i.e., within the required 15 calendar days) in 9 cases. The range of time for the untimely contacts was 16 days to 36 days.
- Monitor current FTDs in eight cases.
- Inform taxpayers about potential penalties related to untimely tax deposits in 18 cases.
- Inform taxpayers about potential enforcement action consequences in 13 cases.

In addition, we identified a difference in the future compliance of taxpayers in those cases that were worked according to procedures compared to the future compliance of those taxpayers for whom revenue officers did not take all required actions. For the 25 cases not worked according to procedures, 17 taxpayers accrued 29 additional outstanding balances for the FTD Alert and subsequent quarters through the fourth quarter of 2006. For the 25 cases worked according to procedures, only 8 taxpayers accrued 13 additional outstanding balances for the Alert and subsequent quarters.

The purpose of the required procedures is to allow revenue officers to educate taxpayers at the earliest possible time after they start falling behind in making their FTDs. These procedures are meant to educate taxpayers about their responsibilities and what could happen if they do not make the FTDs and file tax returns. When procedures are not followed, the IRS loses an opportunity to explain the importance of the FTDs and the taxpayers' responsibilities.

If revenue officers follow proper procedures, the potential for helping taxpayers remain compliant will increase. The November 2005 IRS Research Study and our research during this audit have shown the Alert program is effective; if more effective work is done when contacting the taxpayers, there is the potential for additional compliance.

Recommendation

Recommendation 3: The Director, Collection, should ensure employees follow proper procedures by emphasizing the procedures and documentation requirements for working FTD Alerts.

Management's Response: IRS management agreed with the recommendation. They will develop training specific to FTD Alerts for revenue officers.



Appendix I

Detailed Objective, Scope, and Methodology

The objective of the review was to determine the effectiveness of the FTD Alert program (the Alert program) criteria and case actions to bring taxpayers into compliance with paying taxes. To accomplish this objective, we:

- I. Determined whether the Alert program and the current Alert selection criteria are proper for accomplishing the intended goals.
 - A. Identified the current criteria, procedures, controls, and objectives of the Alert program.
 - B. Compared the current criteria to the prior criteria.
 - C. Determined whether the Alert program is achieving its objectives.
 - D. Determined whether there is sufficient management information available to report the Alert results by evaluating the type(s) of management information available and the source of the information.
- II. Determined whether employees effectively follow procedures and controls when working FTD Alerts.
 - A. Obtained the population of 16,824 open and 6,838 closed Alerts issued from the Treasury Inspector General for Tax Administration Data Center Warehouse ICS¹ Open and Closed files. The data identified taxpayers who were issued Alerts for Calendar Year 2006. The taxpayers included those filing Employer's QUARTERLY Federal Tax Returns (Form 941) who are classified as semiweekly depositors, have not made FTDs during the current quarter, or have made deposits in substantially reduced amounts.
 - B. Validated the reliability of data by comparing IRS-provided data against our data on the ICS contained in the Data Center Warehouse. To determine the numbers of Alerts closed during the second and third quarters of Calendar Year 2006, we queried the Closed History Table in the ICS from the Data Center Warehouse and compared this with IRS data. In addition, we compared the data for the number of Alerts closed to the Collection 5000-23 report.

¹ The ICS is an automated Collection function workload management system designed to automate revenue officer case processing activities such as inputting history items and generating liens and levies.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

- C. Obtained a judgmental sample of 50 Alerts (25 open and 25 closed) issued in the quarters ended June or September 2006 from the data obtained in Step II.A. We used only the mandatory Alert that was issued to the Collection Field function² and worked by the revenue officers. We obtained ICS case histories for the sample of Alerts and requested IRS computer information to review the taxpayer history. Because we determined that we would be unable to project outcome measures over the entire population, we chose for review a judgmental sample of 50 Alert cases from the ICS open and closed files.
 - D. Reviewed case histories to determine whether the Alerts were worked timely and closed appropriately. We determined whether revenue officers properly informed taxpayers about deposit requirements, penalties, and consequences for not depositing and whether revenue officers monitored current deposit payments.
 - E. Verified whether the sample cases met the Alert selection criteria.
- III. Determined whether FTD Alerts worked effectively to bring taxpayers into compliance.
- A. Identified 1,789 taxpayers with Alerts issued for the quarter ending in March 2005 that had the priority to be worked by the Collection Field function. We tracked the taxpayers' compliance through the quarter ending September 2006 for a total of 6 additional quarters. Specifically, we identified the current status for all quarters for such things as returns filed, FTDs made, balances due, taxpayer accounts having had more than one Alert issued, taxpayers that are now fully paid and in compliance, and taxpayers not required to file.
 - B. Determined the reliability of the data from the ICS by relying on Treasury Inspector General for Tax Administration Data Center Warehouse site procedures that ensure data received from the IRS are valid. Various procedures are performed to ensure the Warehouse receives all the records in the ICS and IRS databases. In addition, we scanned the data for reasonableness and are satisfied that the data used in this report are sufficient, complete, and relevant to the review.

² This is the unit in the field offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled tax returns.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Small Business and Corporate Programs)
Parker F. Pearson, Director
Lynn Wofchuck, Audit Manager
Julian O'Neal, Lead Auditor
Cristina Johnson, Senior Auditor
Marcus Sloan, Auditor
Arlene Feskanich, Information Technology Specialist



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



Appendix IV

Taxpayer Compliance Subsequent to Issuance of a Federal Tax Deposit Alert

The following are some compliance trends identified during our analysis of taxpayer account data subsequent to issuance of an FTD Alert (an Alert) for the quarter ending March 2005. Comparing these compliance trends to those of similar taxpayer accounts that did not have an Alert issued would be helpful to determine whether the Alert program is effective.

Total Alerts issued meeting the criteria for assignment to the Collection Field function¹ from all tax quarters in our data: 3,389 tax quarters.² Over 75 percent of the accounts for the tax periods are currently fully paid/satisfied.

There were 1,789 taxpayers whose first quarter of 2005 (March 2005) Alerts would have met the criteria for assignment.

- Only 323 of these taxpayers had subsequent Alerts issued.
- Approximately 87 percent of the March 2005 tax periods are fully paid/satisfied.
- These taxpayers had 11,381 tax periods on the IRS Master File³ for the March 2005 through September 2006 tax periods.
 - 8,808 (77 percent) were fully paid/satisfied.
 - 1,803 (16 percent) were in balance-due status.
 - 236 (2 percent) were in delinquent return status.
 - 236 (2 percent) were in installment agreement⁴ status.
 - 298 (3 percent) remaining cases were shown as having the tax quarter established on the Master File, but no return had been filed.

¹ This is the unit in the field offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled tax returns.

² Due to incorrect Alert coding on the Business Master File for the December 2005 and September 2006 employment tax quarters, we did not obtain all Priority A- and B-coded Alerts for those quarters. We attempted to estimate the number based on one part of the criteria; however, due to the difficulty of the analysis, we determined it was best to not include those quarters in this analysis. Therefore, these numbers include the following employment tax quarters: March, June, and September 2005; March, June, and December 2006. The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

³ The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

⁴ The IRS allows taxpayers to pay their taxes in installments and enter into installment agreements, with interest and penalties, when full payment is not possible.



The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked More Effectively

Appendix V

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
SEP - 4 2007

September 4, 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kathy K. Petronchak *Kathy K. Petronchak*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes; However, the Collection Function Can Work Alerts More Effectively (Audit #200630038)

We have reviewed the draft report titled "The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes; However, the Collection Function Can Work Alerts More Effectively".

We implemented the current FTD Alert selection criteria in March 2004. We are pleased your report acknowledges the positive results including increased deposits. Trends have also shown that more accurate Alerts are reaching the Collection field offices, which saves the Internal Revenue Service time and money.

The recommendations in this report are consistent with our ongoing effort to ensure the effectiveness of the FTD Alerts program. We agree with your recommendations and will begin implementing them in coming months.

Attached is a detailed response outlining our corrective actions. If you have questions or concerns, please contact me or Fred Schindler, Director Collection Policy at (202) 283-2070.

Attachment



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

Attachment

RECOMMENDATION 1:

The Director, Collection should periodically measure taxpayer compliance subsequent to an FTD Alert to determine the effectiveness of the program.

CORRECTIVE ACTIONS:

We agree with this recommendation. We will sample a group of taxpayers who have had FTD Alerts issued on their accounts and follow their compliance for the two subsequent tax periods.

IMPLEMENTATION DATE:

February 15, 2008

RESPONSIBLE OFFICIAL:

Director, Collection Policy

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy will monitor the status and advise the Director, Collection of any delays in implementing.

RECOMMENDATION 2:

The Director, Collection should ensure the Internal Revenue Manual and IRS Processing Integrated Data Retrieval System Automated Data Processing Handbook are updated to reflect the current criteria codes, and request that data displayed about FTD Alerts when researching taxpayer accounts on the Master File show the current criteria and coding.

CORRECTIVE ACTIONS:

We agree with this recommendation. The IRS Processing Codes and Information Handbook, Document 6209, will be revised to reflect current FTD Alert priority codes. The IRM displays the current FTD Alert priority codes. We will submit a request to MITS for a programming change that will reflect the current priority codes on Master File.

IMPLEMENTATION DATE:

January 15, 2008

RESPONSIBLE OFFICIAL:

Director, Collection Policy

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy will monitor the status and advise the Director, Collection of any delays in implementing.



*The Federal Tax Deposit Alert Program Helps Taxpayers Comply
With Paying Taxes, but Alerts Can Be Worked More Effectively*

RECOMMENDATION 3:

The Director, Collection should ensure employees follow proper procedures by emphasizing the procedures and documentation requirements for working FTD Alerts.

CORRECTIVE ACTIONS:

We agree with this recommendation. We will develop training specific to FTD Alerts for revenue officers.

IMPLEMENTATION DATE:

March 15, 2008

RESPONSIBLE OFFICIAL:

Director, Collection Policy

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy will monitor the status and advise the Director, Collection of any delays in implementing.